

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Schoolcraft County Public Transit	County Schoolcraft
Audit Date 9/30/05	Opinion Date 12/7/05	Date Accountant Report Submitted to State: 2/2/06	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

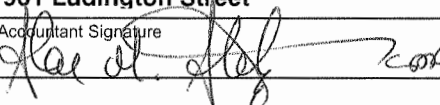
1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Anderson, Tackman & Company, PLC			
Street Address 901 Ludington Street	City Escanaba	State MI	ZIP 49829
Accountant Signature 		Date 2/2/06	

SCHOOLCRAFT COUNTY PUBLIC TRANSIT SYSTEM

COMPONENT UNIT FINANCIAL REPORT

Year Ended September 30, 2005

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	3
FINANCIAL STATEMENTS:	
Statement of Net Assets.	6
Statement of Revenues, Expenses, and Changes in Net Assets	7
Statement of Cash Flows.	8
Notes to Financial Statements.	9
SUPPLEMENTARY INFORMATION:	
Schedule of Operating Revenues	15
Schedule of Operating Expenses	16
Schedule of Nonoperating Revenues.	17
Schedule of State and Federal Capital Assets Contributed	18
Schedule of Capital Contracts.	19
Schedule of Expenses by Contract and General Operations.	20
Net Eligible Costs Computations of General Operations.	21
Schedule of Mileage Data, Vehicle Hours, and Passengers.	22
FINANCIAL ASSISTANCE - FEDERAL AND STATE:	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	24
Schedule of Awards - Federal and State	27
Schedule of Ineligible Costs	29



ANDERSON, TACKMAN & COMPANY, PLC

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the
Schoolcraft County Public Transit System

We have audited the accompanying financial statements of the Schoolcraft County Public Transit System, a component unit of Schoolcraft County, as of and for the year ended September 30, 2005, as listed in the table of contents. These financial statements are the responsibility of the Transit's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Schoolcraft County Public Transit System, as of September 30, 2005, and the changes in financial position and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our reported dated December 7, 2005, on our consideration of the Schoolcraft County Public Transit System's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

Board of Directors
Schoolcraft County Public Transit System

The management's discussion and analysis on pages three through five are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Supplementary Information and the Financial Assistance - Federal and State, as listed on the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Andersen, Tuckman & Company P.C.

Certified Public Accountants

December 7, 2005

SCHOOLCRAFT COUNTY PUBLIC TRANSIT SYSTEM

Management's Discussion and Analysis

This section of the Schoolcraft County Public Transit System's annual financial report presents our discussion and analysis of the Transit's financial performance during the year ended September 30, 2005. Please read it in conjunction with the Transit's financial statements.

The following table summarizes the net assets as of September 30, 2005 and 2004:

	<u>2005</u>	<u>2004</u>
Assets:		
Current Assets:		
Cash and equivalents	\$ 131,486	\$ 171,503
Federal operating assistance receivable	-	24,799
State grants receivable	121,602	14,538
Accounts receivable	11,748	12,963
Interest receivable	174	102
Taxes receivable	-	1,326
Prepaid expenses	<u>5,517</u>	<u>756</u>
Total Current Assets	270,527	225,987
Property and equipment, net of accumulated depreciation	<u>377,717</u>	<u>183,129</u>
Total Assets	<u><u>\$ 648,244</u></u>	<u><u>\$ 409,116</u></u>
Liabilities:		
Current Liabilities:		
Accounts payable	\$ 73,645	\$ 4,424
Accrued payroll and fringes	<u>12,377</u>	<u>12,335</u>
Total Current Liabilities	86,022	16,759
Noncurrent Liabilities:		
Accrued fringe benefits	<u>22,132</u>	<u>22,085</u>
Total Liabilities	<u><u>\$ 108,154</u></u>	<u><u>\$ 38,844</u></u>
Net Assets:		
Invested in capital assets, net of related debt	\$ 377,717	\$ 183,129
Unrestricted	<u>162,373</u>	<u>187,143</u>
Total Net Assets	<u><u>\$ 540,090</u></u>	<u><u>\$ 370,272</u></u>

The Transit provides transportation services to Schoolcraft County. During the year we provided service to 38,040 passengers. This reflected a 2.6% decrease over fiscal year 2004's ridership totals.

The following table provides comparative revenue and expense information for the fiscal years ended September 30, 2005 and 2004:

	<u>2005</u>	<u>2004</u>
Operating revenues	\$ 84,642	\$ 83,124
Operating expenses	<u>(548,367)</u>	<u>(514,536)</u>
Operating Loss	(463,725)	(431,412)
Nonoperating revenues	<u>633,543</u>	<u>366,620</u>
Increase (Decrease) in Net Assets	169,818	(64,792)
Net Assets, beginning of year	<u>370,272</u>	<u>435,064</u>
Net Assets, end of year	<u><u>\$ 540,090</u></u>	<u><u>\$ 370,272</u></u>

The Transit had an \$194,588 increase in property and equipment during the 2005 fiscal year. This was due primarily to the addition of two new buses and a partially completed building project. The building project, once completed, will house all of the administrative and operating activities of the Transit. We hope to have completion of this project within fiscal year 2006. The total cost of this project will be approximately \$400,000. This will be financed through the sale of the old Transit building and through state and federal capital assistance grants.

The operating expenses increased during fiscal year 2005 by \$33,831. This was due primarily to a \$9,917 increase in fringe benefits relating to the County's underfunded pension plan; a \$6,651 increase in fuel costs due to the sharp rise in fuel prices; and a \$10,170 increase in depreciation expense. The depreciation expense increase is of no real effect to the Transit operations, as most of the depreciation expense is related to state and federal contributed capital.

The operating revenues remained relatively flat when compared to fiscal year 2004. However, there was a \$266,923 increase in nonoperating revenues in fiscal year 2005. This was due primarily to an increase in capital grants received for the building project and the two new buses for a total of \$254,023. Tax millage collections also increased by \$17,688 for the year.

When taken all together there was an increase in net assets of \$169,818 for the fiscal year 2005. Again, this is due primarily to the capital additions during the year. We will continue to monitor state and federal operating assistance grants to determine appropriate expense levels. We are insulated from cuts to a certain degree due to the operating tax

millage that helps support the Transit operations. For the 2005 fiscal year the property tax collected for Transit use was \$123,430.

This financial report is designed to provide our taxpayers and citizens with a general overview of the Transit's finances and to demonstrate the Transit's accountability for the money it receives. If you have any questions about this report or need additional information, please contact the Transit office directly at 129 North Lake, Manistique, Michigan, 49854.

SCHOOLCRAFT COUNTY PUBLIC TRANSIT SYSTEM

STATEMENT OF NET ASSETS

September 30, 2005

ASSETS

CURRENT ASSETS:

Cash and equivalents	\$131,486
State and Federal grants receivable	121,602
Accounts receivable	11,748
Interest receivable	174
Prepaid expenses	<u>5,517</u>

TOTAL CURRENT ASSETS 270,527

PROPERTY AND EQUIPMENT, less accumulated
depreciation of \$307,669

377,717

\$648,244

LIABILITIES AND FUND EQUITY

CURRENT LIABILITIES:

Accounts payable	\$ 73,645
Accrued payroll and fringes	<u>12,377</u>

TOTAL CURRENT LIABILITIES 86,022

NONCURRENT LIABILITIES:

Accrued fringe benefits:	
Vacation leave	5,027
Sick leave	16,340
Personal leave	<u>765</u>

TOTAL NONCURRENT LIABILITIES 22,132

NET ASSETS:

Invested in capital assets, net of related debt:	
State and federal	366,348
Local	11,369
Net assets, unrestricted	<u>162,373</u>

TOTAL NET ASSETS 540,090

\$648,244

See accompanying notes to financial statements.

SCHOOLCRAFT COUNTY PUBLIC TRANSIT SYSTEM

STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN NET ASSETS

For the year ended September 30, 2005

Operating revenues		\$ 84,642
Operating expenses		<u>(548,367)</u>
	OPERATING LOSS	(463,725)
Nonoperating revenues		<u>633,543</u>
	INCREASE IN NET ASSETS	169,818
Net assets, beginning of year		<u>370,272</u>
	NET ASSETS, END OF YEAR	<u>\$540,090</u>

See accompanying notes to financial statements.

SCHOOLCRAFT COUNTY PUBLIC TRANSIT SYSTEM

STATEMENT OF CASH FLOWS

For the year ended September 30, 2005

CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from customers	\$ 85,857
Cash payments to employees for services	(387,761)
Cash payments to suppliers for goods and services	<u>(35,900)</u>
NET CASH USED BY OPERATING ACTIVITIES	<u>(337,804)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:	
Operating grants received	171,387
Tax levy received	<u>124,756</u>
NET CASH PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES	<u>296,143</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:	
Capital grants received	254,023
Capital acquisitions	<u>(254,747)</u>
NET CASH USED BY CAPITAL FINANCING ACTIVITIES	<u>(724)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest received on investments	<u>2,368</u>
NET DECREASE IN CASH AND EQUIVALENTS	(40,017)
CASH AND EQUIVALENTS, beginning of year	<u>171,503</u>
CASH AND EQUIVALENTS, END OF YEAR	<u>\$131,486</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:	
Operating loss	(\$463,725)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation	60,157
Changes in assets and liabilities:	
(Increase) decrease in receivables	1,215
(Increase) decrease in prepaid expenses	(4,761)
Increase (decrease) in payables	69,221
Increase (decrease) in accruals	<u>89</u>
NET CASH USED BY OPERATING ACTIVITIES	<u>(\$337,804)</u>

See accompanying notes to financial statements.

SCHOOLCRAFT COUNTY PUBLIC TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS

September 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Schoolcraft County Public Transit System conform to generally accepted accounting principles as applicable to governmental units. Significant policies are as follows:

(1) Enterprise Fund - The Schoolcraft County Public Transit System, a component unit enterprise fund of the County of Schoolcraft, accounts for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis are financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The Transit applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict or contradict GASB pronouncements.

(2) Basis of Accounting - Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. The Transit maintains its accounting records on the accrual basis of accounting. Revenues are recognized when they are earned and expenses are recognized when incurred.

(3) Inventories - Office and garage supplies are expensed when purchased. Items on hand at year-end were considered to have a dollar value not significant enough in amount to materially affect the financial statements, therefore, inventory was not recorded.

(4) Fixed Assets and Depreciation - Fixed assets are stated at cost when purchased or fair market value at date of gift. Costs relating to maintenance and repairs are charged to expenses, whereas those for renewals and betterments, when significant in amount, are capitalized. Provisions for depreciation of equipment are computed on the straight-line method. Depreciation rates are designed to amortize the cost of the assets over their estimated useful lives.

(5) Property Taxes - Current property taxes are levied as of December 1 each year and attach an enforceable lien on the property. Current property taxes levied are collected by other local units of government until the subsequent year when revenue is recognized for the current budget year. Current property taxes from the December 1 levy, which are received

SCHOOLCRAFT COUNTY PUBLIC TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS

September 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

prior to December 31, are normally held in the Schoolcraft County's Trust and Agency Fund. The Transit subsequently receives its portion of the levy from this fund. For the 2004 calendar year the Transit levied .4806 mills.

(6) Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

NOTE B - CASH AND EQUIVALENTS

The composition of cash and equivalents as reported on the Statement of Net Assets are presented below:

Demand deposits	\$ 25,997
Certificate of deposits	<u>105,489</u>
	<u>\$131,486</u>

All cash and equivalents are on deposit with the Schoolcraft County Treasurer with the Treasurer listed as the signatory. The insurability of this money is therefore not determinable.

NOTE C - STATE AND FEDERAL GRANTS RECEIVABLE

The following is a summary of the state and federal grants receivable as of September 30, 2005:

Federal Section 5311 Operating Assistance - FY05	\$ 16,164
- FY03	8,756
Federal and State Capital Assistance	67,230
State Act 51 Operating Assistance - FY04	14,538
- FY05	<u>14,914</u>
TOTAL	<u>\$121,602</u>

NOTE D - PROPERTY AND EQUIPMENT

Major classes of property and equipment consist of the following:

SCHOOLCRAFT COUNTY PUBLIC TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS

September 30, 2005

NOTE D - PROPERTY AND EQUIPMENT (continued)

	<u>9/30/04 Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>9/30/05 Balance</u>
Purchased with Capital Grants:				
Land, not being depreciated	\$ -	\$ 10,000	\$ -	\$ 10,000
Building in progress, not being depreciated	-	149,540	-	149,540
Buildings and improvements	36,400	-	-	36,400
Vehicles	309,934	88,522	9,905	388,551
Equipment	54,488	5,961	-	60,449
Accumulated depreciation	<u>(230,430)</u>	<u>(58,067)</u>	<u>9,905</u>	<u>(278,592)</u>
Subtotal	<u>170,392</u>	<u>195,956</u>	<u>-</u>	<u>366,348</u>
Purchased with Transit Funds:				
Building and improvements	38,636	-	-	38,636
Vehicles	888	-	-	888
Equipment	200	722	-	922
Accumulated depreciation	<u>(26,987)</u>	<u>(2,090)</u>	<u>-</u>	<u>(29,077)</u>
Subtotal	<u>12,737</u>	<u>(1,368)</u>	<u>-</u>	<u>11,369</u>
TOTAL	<u>\$ 183,129</u>	<u>\$ 194,588</u>	<u>\$ -</u>	<u>\$ 377,717</u>

Useful lives of fixed assets are as follows:

Building and improvements	20 years
Vehicles	5-7 years
Equipment	5-10 years

Depreciation expense was \$60,157 for the fiscal year.

NOTE E - RETIREMENT PLAN

Employees are covered by the Michigan Municipal Employees Retirement System. Retirement funding is based on a percentage of payroll and covers all eligible employees. Since the Schoolcraft County Public Transit System utilizes the Schoolcraft County payroll system and Transit employees are considered to be County employees, all retirement funding and reporting is done by County personnel with the applicable disclosures reported within the County financial statements. The Public Transit System reimburses the County for actual costs and classifies those as fringe benefits.

NOTE F - ACCUMULATED UNPAID VACATION AND SICK LEAVE

Vacation is earned on a variable basis, depending upon length of employment. Upon retirement or termination, employees are paid for all outstanding days accumulated at their current rate of pay. The amount of accrued vacation time at September 30, 2005 is \$5,027.

Sick leave is earned at the rate of one day per month, not exceeding twelve days per year. Upon retirement or disability, employees are eligible to receive one-half of such sick leave accumulated, up to a maximum of

SCHOOLCRAFT COUNTY PUBLIC TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS

September 30, 2005

NOTE F - ACCUMULATED UNPAID VACATION AND SICK LEAVE (continued)

one hundred days, at their current rate of pay. The amount of accumulated sick leave recorded in this financial statement at one-half of the total accumulated sick leave is \$16,340. Actual sick leave available to be used upon illness is \$32,680.

Changes in accumulated compensated absences is as follows:

	<u>9/30/04 Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>9/30/05 Balance</u>
Vacation	\$ 6,591	\$ -	\$ 1,564	\$ 5,027
Sick	14,818	1,522	-	16,340
Personal	<u>676</u>	<u>89</u>	<u>-</u>	<u>765</u>
TOTAL	<u>\$ 22,085</u>	<u>\$ 1,611</u>	<u>\$ 1,564</u>	<u>\$ 22,132</u>

NOTE G - MAINTENANCE AGREEMENT

An agreement exists between the Public Transit System and El-Com Services for servicing of radio equipment at an annual fee of \$1,236, payable quarterly.

NOTE H - CONTRACT FOR SERVICES

A contract for transportation services is in effect with Hiawatha Behavioral Health for transporting patients with fares ranging from \$1.00 to \$13.00 depending on distance traveled. The total amount received under this contract for the year ended September 30, 2005 was \$54,917.

The Public Transit System also has other minor contracts with various local establishments.

NOTE I - GRANT CONTINGENCIES

Under the terms of federal and state grants, periodic audits are required and certain costs may be questioned as not being appropriate expenses under the terms of the grants. Such audits could lead to reimbursements to the grantor agencies. As of September 30, 2005, no such contingencies for questioned costs were known to exist.

NOTE J - BUS SUB-LEASE

The Transit has a sub-lease for one bus from the State of Michigan. This bus is leased by the State from the lessor (a third-party) and the Transit does not hold title or liability for this bus. As such, these financial statements show no asset or depreciation expense for this bus. The Transit is only liable for the operating expenses related to the leased bus.

SCHOOLCRAFT COUNTY PUBLIC TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS

September 30, 2005

NOTE K - COMMITMENTS

As of September 30, 2005, the Transit was in the process of having a new facility constructed for their operations. This project is substantially funded by state and federal grant revenues. The approximate balance remaining in the construction project is \$235,850.

SUPPLEMENTARY INFORMATION

SCHOOLCRAFT COUNTY PUBLIC TRANSIT SYSTEM

SCHEDULE OF OPERATING REVENUES

For the year ended September 30, 2005

OPERATING REVENUES:

Demand response (farebox)	\$ 20,498
Special contract fares	<u>64,144</u>
TOTAL OPERATING REVENUES	<u>\$ 84,642</u>

See accompanying notes to financial statements.

SCHOOLCRAFT COUNTY PUBLIC TRANSIT SYSTEM

SCHEDULE OF OPERATING EXPENSES

For the year ended September 30, 2005

	<u>Opera- tions</u>	<u>Mainten- ance</u>	<u>Adminis- tration</u>	<u>Total System</u>
Labor:				
Operators' wages	\$215,808	\$ -	\$ -	\$ 215,808
Other salaries and wages	-	-	36,239	36,239
Fringe benefits	116,277	-	19,526	135,803
Services:				
Advertising fees	-	-	2,850	2,850
Audit cost	-	-	2,050	2,050
Other services	18,442	-	-	18,442
Fuel and lubricants	39,815	-	-	39,815
Materials and supplies	506	19,896	-	20,402
Utilities	5,922	-	-	5,922
Casualty and liability costs				
- Liability & damage insurance	10,817	-	-	10,817
Miscellaneous:				
Travel and training	62	-	-	62
Depreciation	<u>60,157</u>	<u>-</u>	<u>-</u>	<u>60,157</u>
TOTAL OPERATING EXPENSES	<u>\$467,806</u>	<u>\$ 19,896</u>	<u>\$ 60,665</u>	<u>\$ 548,367</u>

See accompanying notes to financial statements.

SCHOOLCRAFT COUNTY PUBLIC TRANSIT SYSTEM

SCHEDULE OF NONOPERATING REVENUES

For the year ended September 30, 2005

LOCAL GRANTS:	
Operating millage & other taxes	\$123,430
STATE OF MICHIGAN OPERATING GRANTS:	
Formula operating assistance (Act 51)	187,883
FEDERAL OPERATING GRANTS:	
U.S. Department of Transportation Grant Section 5311	55,800
FY03 adjustment	8,756
CAPITAL GRANTS	254,023
INTEREST EARNED	2,438
ADMIN FEE AND MISCELLANEOUS	<u>1,213</u>
TOTAL NON-OPERATING REVENUES	<u>\$633,543</u>

See accompanying notes to financial statements.

SCHOOLCRAFT COUNTY PUBLIC TRANSIT SYSTEM

SCHEDULE OF STATE AND FEDERAL CAPITAL ASSETS CONTRIBUTED

For the year ended September 30, 2005

Balance, beginning of year	\$170,392
Add: Capital contract - 99-0438	25,000
- 00-0420	65,000
- 01-0927	35,000
- 02-0085Z3	3,000
- 02-0085Z6	126,023
Deduct: Depreciation of assets purchased from contributed equity	<u>(58,067)</u>
BALANCE, END OF YEAR	<u>\$366,348</u>

See accompanying notes to financial statements.

SCHOOLCRAFT COUNTY PUBLIC TRANSIT SYSTEM

SCHEDULE OF CAPITAL CONTRACTS

For the year ended September 30, 2005

GRANTOR: Michigan Department of Transportation

<u>Contract Number</u>	<u>Grant Amount</u>	<u>Previously Earned</u>	<u>Currently Earned</u>	<u>Amount Remaining</u>
99-0438	\$ 25,000	\$ -	\$ 25,000	\$ -
00-0420	65,000	-	65,000	-
01-0927	35,000	-	35,000	-
02-0085Z3	52,110	49,110	3,000	-
02-0085Z6	152,420	16,265	126,023	10,132
02-0085Z8	48,500	-	-	48,500
02-0085Z9	43,750	-	-	43,750
02-0085Z11	<u>157,500</u>	<u>-</u>	<u>-</u>	<u>157,500</u>
	<u>\$ 579,280</u>	<u>\$ 65,375</u>	<u>\$ 254,023</u>	<u>\$ 259,882</u>

See accompanying notes to financial statements.

SCHOOLCRAFT COUNTY PUBLIC TRANSIT SYSTEM

SCHEDULE OF EXPENSES BY CONTRACT AND GENERAL OPERATIONS

For the year ended September 30, 2005

	<u>Operating</u>	<u>Total</u>
Labor	\$ 252,047	\$ 252,047
Fringe benefits	135,803	135,803
Services	23,342	23,342
Fuel and lubricants	39,815	39,815
Materials and supplies	20,402	20,402
Utilities	5,922	5,922
Casualty and liability costs	10,817	10,817
Miscellaneous	62	62
Depreciation	<u>60,157</u>	<u>60,157</u>
	548,367	548,367
Less ineligible expenses	<u>(61,618)</u>	<u>(61,618)</u>
TOTAL ELIGIBLE EXPENSES	<u>\$ 486,749</u>	<u>\$ 486,749</u>

See accompanying notes to financial statements.

SCHOOLCRAFT COUNTY PUBLIC TRANSIT SYSTEM

NET ELIGIBLE COSTS COMPUTATIONS OF GENERAL OPERATIONS

For the year ended September 30, 2005

	<u>Federal Section 5311</u>	<u>State Operating Assistance</u>
EXPENSES:		
Labor	\$ 252,047	\$ 252,047
Fringe benefits	135,803	135,803
Services	23,342	23,342
Fuel and lubricants	39,815	39,815
Materials and supplies	20,402	20,402
Utilities	5,922	5,922
Casualty and liability costs	10,817	10,817
Miscellaneous	62	62
Depreciation	<u>60,157</u>	<u>60,157</u>
TOTAL EXPENSES	<u>548,367</u>	<u>548,367</u>
LESS INELIGIBLE EXPENSES:		
Depreciation	59,517	59,517
MPTA dues	51	51
Audit cost	<u>2,050</u>	<u>-</u>
	<u>61,618</u>	<u>59,568</u>
NET ELIGIBLE EXPENSES	<u>\$ 486,749</u>	<u>\$ 488,799</u>
SECTION 5311 CONTRACT PERCENTAGE-12.4%	<u>\$ 60,357</u>	
MAXIMUM SECTION 5311 REIMBURSEMENT	<u>\$ 55,800</u>	
STATE OPERATING ASSISTANCE REIMBURSEMENT 38.437574823%		<u>\$ 187,883</u>

See accompanying notes to financial statements.

SCHOOLCRAFT COUNTY PUBLIC TRANSIT SYSTEM

SCHEDULE OF MILEAGE DATA, VEHICLE HOURS, AND PASSENGERS

For the year ended September 30, 2005

	<u>Public Transpor- tation Mileage</u>	<u>Vehicle Hours</u>	<u>Passengers</u>			<u>Elderly Persons With Dis- abilities</u>
			<u>Regular</u>	<u>Elderly</u>	<u>Disabled</u>	
DEMAND RESPONSE:						
First Quarter	40,624	1,624	4,294	1,576	3,683	290
Second Quarter	39,815	1,591	4,097	1,542	3,887	367
Third Quarter	42,635	1,697	3,678	1,622	3,661	514
Fourth Quarter	<u>42,318</u>	<u>1,689</u>	<u>3,192</u>	<u>1,356</u>	<u>3,548</u>	<u>733</u>
	<u>165,392</u>	<u>6,601</u>	<u>15,261</u>	<u>6,096</u>	<u>14,779</u>	<u>1,904</u>

The methodology used for compiling mileage has been reviewed and found to be an adequate and reliable method for recording vehicle mileage.

See accompanying notes to financial statements.

FINANCIAL ASSISTANCE - FEDERAL AND STATE



ANDERSON, TACKMAN & COMPANY, PLC

CERTIFIED PUBLIC ACCOUNTANTS

OFFICES IN MICHIGAN AND WISCONSIN

Kristine P. Berhow, CPA, Principal
Alan M. Stotz, CPA, Principal
Raymond B. LaMarche, CPA, Principal
Erkki M. Peippo, CPA, PC, Principal

Kevin C. Pascoe, CPA
Lindsay J. Behrend, CPA
Christina A. Smigowski, CPA

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON AN COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board of Directors of the
Schoolcraft County Public Transit System
Manistique, Michigan 49854

We have audited the financial statements of the Schoolcraft County Public Transit System, as of and for the year ended September 30, 2005, and have issued our report thereon dated December 7, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Transit's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the Transit, in a separate letter dated December 7, 2005.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Transit's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an

opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Transit Board, management and state and federal awarding agencies and is not intended to be and should not be used by anyone other than these specific parties.

Anderson, Tackman & Company P.C.

Certified Public Accountants

December 7, 2005

SCHOOLCRAFT COUNTY PUBLIC TRANSIT SYSTEM

SCHEDULE OF AWARDS - FEDERAL AND STATE

For the year ended September 30, 2005

<u>Federal Grantor/Program Title</u>	<u>State Grantor Number</u>	<u>CFDA Number</u>	<u>Award Amount</u>
U.S. DEPARTMENT OF TREASURY:			
Passed through MDOT			
Section 5311			
Operating assistance - FY05	02-0085Z10	20.509	\$ 55,800
Operating assistance - FY03	02-0085Z5	20.509	8,756
Capital assistance	99-0438	20.509	25,000
Capital assistance	00-0420	20.509	65,000
Capital assistance	01-0927	20.509	35,000
Capital assistance	02-0085Z3	20.509	3,000
Capital assistance	02-0085Z6	20.509	126,023
MICHIGAN DEPARTMENT OF TRANSPORTATION:			
Operating assistance - Act 51 - FY05	-	-	<u>187,883</u>
TOTAL CAPITAL AND OPERATING ASSISTANCE			<u>\$ 506,462</u>

<u>Unexpended Balance 09/30/04</u>	<u>Federal Revenue</u>	<u>State Revenue</u>	<u>Other Revenue</u>	<u>Expendi- tures</u>	<u>Unexpended Balance 09/30/05</u>
\$ -	\$ 55,800	\$ -	\$ -	\$ 55,800	\$ -
-	8,756	-	-	8,756	-
-	20,000	5,000	-	25,000	-
-	52,000	13,000	-	65,000	-
-	28,000	7,000	-	35,000	-
-	2,400	600	-	3,000	-
-	100,818	25,205	-	126,023	-
<u>-</u>	<u>-</u>	<u>187,883</u>	<u>-</u>	<u>187,883</u>	<u>-</u>
<u>\$ -</u>	<u>\$ 267,774</u>	<u>\$ 238,688</u>	<u>\$ -</u>	<u>\$ 506,462</u>	<u>\$ -</u>

SCHOOLCRAFT COUNTY PUBLIC TRANSIT SYSTEM

SCHEDULE OF INELIGIBLE COSTS

For the year ended September 30, 2005

<u>Ineligible Costs</u>	<u>Section 5311</u>	<u>Act 51</u>
1. <u>Depreciation</u> - Depreciation accrued by public operators on state-funded equipment is ineligible according to state guidelines. With state approval local depreciation can be eligible. There was \$640 of eligible local depreciation in the year ended September 30, 2005.	\$ 59,517	\$ 59,517
2. <u>MPTA Dues</u> - A percentage of the MPTA dues are ineligible expenses per the State Expense Manual. This years ineligible percentage was 6.9 percent.	51	51
3. <u>Audit Cost</u> - Because the Transit did not need a single audit in compliance with OMB Circular A-133 the audit cost is an ineligible expense for the Section 5311 reimbursement.	2,050	-



ANDERSON, TACKMAN & COMPANY, PLC

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REPORT TO MANAGEMENT

Board of Directors
Schoolcraft County Public Transit System
Manistique, Michigan 49854

We have audited the financial statements of the Schoolcraft County Public Transit System for the year ended September 30, 2005, and have issued our reports thereon dated December 7, 2005. Our professional standards require that we make several communications to you, the purpose of which is to assist you with additional information regarding the scope and results of the audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

Our Responsibility under U.S. Generally Accepted Auditing Standards

Our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, irregularities, or illegal acts, including fraud and defalcations, may exist and not be detected by us.

As part of our audit, we considered the internal control structure of the Schoolcraft County Public Transit System. Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for safeguarding assets and for maintaining the structure of the internal control system to help assure the proper recording of transactions. Our consideration of the system of internal control was solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control structure.

Significant Accounting Policies

Management has the responsibility for selection of appropriate accounting policies. In accordance with the terms of our engagement, we will advise management of the appropriateness of the accounting policies and their application. The significant accounting policies used by the Schoolcraft County Public Transit System are described in Note A of the financial statements.

Significant Accounting Policies (continued)

The application of existing policies were not changed during the fiscal year. We noted no transactions entered into by the Schoolcraft County Public Transit System during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Management Judgments and Accounting Estimates

Some accounting estimates are utilized in financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. Our conclusions regarding the reasonableness of the estimates are based on reviewing and testing the historical data provided by management and using this data to compute the estimates.

Useful lives of fixed assets are estimates. These estimates have been made using the guidance provided by the Michigan Department of Transportation on depreciable lives of assets.

Significant Audit Adjustments

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. Our audit adjustments, individually and in the aggregate, do have a significant effect on the financial reporting process.

The audit adjustments that had a significant effect on the Transit's financial reporting process related primarily to the recording of receivables and payables with respect to the building project.

Disagreement with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether significant or not resolved to our satisfaction concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultation with Other Independent Accountants

In some cases, management may decide to consult with other accountants about accounting and auditing matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Schoolcraft County Public Transit System or a determination

of the type of auditor's opinion to be expressed on those statements, our professional standards require the consulting accountant to advise us as to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in the performance of our audit.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Transit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

In planning and performing our audit of the financial statements of the Schoolcraft County Public Transit System, for the year ended September 30, 2005, we considered the Transit's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated December 7, 2005, on the financial statements of the Schoolcraft County Public Transit System

We have already discussed many of these comments and suggestions with various Transit personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This information is intended solely for the use of the Transit Board, management and state and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Andersen, Tackman & Company P.C.

Certified Public Accountants

December 7, 2005

SCHOOLCRAFT COUNTY PUBLIC TRANSIT SYSTEM

COMMENTS AND RECOMMENDATIONS

September 30, 2005

FAREBOX COLLECTIONS

1. We noted during our audit that lockboxes are not used on the buses and that drivers maintain their own log sheets. This creates a risk of unrecorded fares. We recommend that the drivers begin using the lockboxes to further enhance the internal controls over farebox collections.
2. We also noted that farebox receipts are not always deposited with the County on a timely basis. Frequently there are substantial amounts of farebox receipts kept at the Transit office prior to deposit. We recommend that deposits be made on a more timely basis and that cash held at the Transit office be kept to a minimum.
3. We noted that fare cards sold did not always track from the driver log summaries to the County transmittal advice. We recommend that an effort be made to reconcile the fare cards sold, as listed on the drivers logs, to the County transmittal advice.

BILL APPROVAL

We noted during our review of the board minutes that September and October 2004's bills, while approved, had no dollar amount listed in the minutes. We recommend that each month's bills be approved by the board and that the approval and the dollar amount approved be reflected in the board minutes.

BOARD MINUTES

During our review of the board minutes we noted that the minutes were not signed. We recommend that each month's board minutes be signed by the board secretary once these minutes have been approved.